

# MEMORANDUM

To: Robert S. Collier, President, Council of Michigan Foundations  
From: Gary S. Olson, Senior Policy Fellow, Public Sector Consultants  
Date: April 24, 2011  
Subject: Option for **Simplification and Reduction** of the Current Individual Michigan Tax Credits for Charitable Donations

## ***Recommendation***

At your request, Public Sector Consultants (PSC) has reviewed the current status of the tax credits under the Michigan income tax for charitable contributions. Based on this analysis and review, PSC has constructed an alternative proposal that would simplify and restructure the three existing charitable income tax credits and create significant cost savings to the state. Based on available data, PSC estimates that the annual cost of the three individual 50 percent credits would drop from \$49.2 million under current law to approximately \$17.2 million with one 25 percent credit—a savings of at least 65 percent to the state, while still helping to generate private giving by Michiganders to these eligible charities.

## ***Current Individual Income Tax Charitable Credits***

Pursuant to provisions of the Income Tax Act of 1967 (Public Act 281 of 1967), individual income taxpayers in Michigan are eligible to claim three different income tax credits for certain contributions to approved public and nonprofit agencies.

**Community Foundations:** Taxpayers may claim a credit equal to 50 percent of cash contributions to an endowment fund of a community foundation (MCL 206.261). This credit is limited to \$100 each tax year for taxpayers filing a single return and \$200 for joint returns. The credit for resident estate or trust income tax returns is limited to 10 percent of the taxpayer's liability, not to exceed \$5,000. The credit for contributions to community foundations has been available to Michigan individual income taxpayers since tax year 1989. Community foundations must file a certification with the Department of Treasury in order to be eligible to have taxpayer's contributions applied to this credit. Pursuant to the Michigan Department of Treasury's Fiscal Year 2010–11 Tax Expenditure Report, this credit will reduce income tax revenues by \$3.4 million.

**Homeless Shelters and Food Banks:** Taxpayers may claim a credit equal to 50 percent of cash contributions made to homeless shelters and food banks (MCL 206.261). Taxpayers may also claim a credit for 50 percent of the value of in-kind contributions of food to a food bank, but only if the food donation is made in conjunction with a matching contribution by a food retailer or vendor. This credit is limited to \$100 each tax year for taxpayers filing a single return and \$200

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for joint returns. The credit for a resident estate or trust income tax return is limited to 10 percent of the taxpayer's liability, not to exceed \$5,000. The credit for contributions to homeless shelters and food banks has been available to Michigan individual income taxpayers since tax year 1992. Pursuant to the Michigan Department of Treasury's Fiscal Year 2010–11 Tax Expenditure Report, this credit will reduce income tax revenues by \$21.0 million.

**Public Contribution Credit:** Taxpayers may claim a credit equal to 50 percent of the value of cash contributions made to

- Michigan colleges and universities,
- the Michigan Colleges Foundation,
- the State Art in Public Places Fund,
- the Michigan Historical Museum,
- Michigan public libraries,
- Michigan public broadcasting stations,
- art institutes owned by municipal governments, and
- the State of Michigan Archives (MCL 206.260).

Taxpayers may also claim this credit for art donated for display in a public place in the state. This credit is limited to \$100 each tax year for taxpayers filing a single return and \$200 for joint returns. The credit for a resident estate or trust income tax return is limited to 10 percent of the taxpayer's liability, not to exceed \$5,000. The credit for contributions to colleges and universities and other public bodies has been available to Michigan individual income taxpayers since tax year 1988. Pursuant to the Michigan Department of Treasury's Fiscal Year 2010–11 Tax Expenditure Report, this credit will reduce income tax revenues by \$24.8 million.

### ***Consolidate Existing Charitable Tax Credits***

This recommendation is proposed in recognition of the interest by Governor Snyder and legislative leadership to simplify Michigan's Tax Code, as well as to respond to a request for an option that would continue to promote charitable giving—unlike the governor's recommendation to eliminate all charitable tax credits for the new state budget.

The current variation in state tax treatment of **individual** income taxpayers' charitable contributions based on the types of charitable donations made during the tax year leads to both confusion among taxpayers and a more complex state tax form. Taxpayers have to carefully examine their charitable donations and then categorize them based on the list of eligible donations for each separate credit. The state tax forms are more complex under this system due to multiple credit lines on the individual income tax, as well as the associated instructions that must accompany each credit offered on the returns.

**To simplify the filing of tax returns by individuals and the processing of tax returns by the state, the state could consolidate the three existing individual income tax credits for charitable contributions into a single tax credit that would still provide individual income taxpayers the option of claiming a credit for charitable contributions.** The proposed new credit under the individual income tax would allow taxpayers to claim a credit for contributions to the following charitable organizations:

- Community foundations and the endowment funds they hold for hundreds of nonprofits
- Homeless shelters and food banks
- Michigan colleges and universities

- the Michigan Colleges Foundation,
- State Art in Public Places Fund
- Michigan Historical Museum
- Michigan public libraries
- Michigan public broadcasting stations
- Art institutes owned by municipal governments
- State of Michigan Archives

In recognition of the fiscal pressures facing the Michigan state budget, the eligible tax credit could be reduced from the current 50 percent credit in three separate charitable categories to 25 percent of the total amount contributed during the tax year to eligible charitable organizations. Under this option, the maximum amount of the combined credit would be capped at \$50 for a single taxpayer and \$100 for taxpayers filing a joint income tax return—in contrast to current law, where the cap for a taxpayer making all three contributions is \$300 for single filers and \$600 for joint filers. This proposed consolidation will lead to significant savings to the state; PSC estimates that the annual cost of the individual credits for charitable contributions would drop from \$49.1 million under current law to approximately \$17.2 million (a decline of at least 65 percent).

The overall effect of this restructuring would vary among taxpayers. Based on the number of taxpayers filing for the current credits—only 405,000 returns filed for at least one of the existing credits for charitable contributions in tax year 2008<sup>1</sup>—most income taxpayers would see a minor change from the consolidation of the credits. Those taxpayers who currently claim two or three of the credits on their return would see the most difference.

Based on Department of Treasury data, a total of 13,537 taxpayers claimed **all three** credits in the most recent tax year—or just over **3 percent** of all individual filers who made a charitable contribution. Under current law, these taxpayers could receive total credits of \$600 if the maximum credit was claimed and the taxpayer was filing a joint return. Under the proposed consolidation and reduction, the credit for this taxpayer would be reduced from \$600 to \$100 for joint filers (or from \$300 to \$50 for single filers). Taxpayers who are currently filing for two of the existing credits could also see the value of their credits decline, depending on the amount of the contributions made under each of the existing credits.

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<sup>1</sup> According to Michigan Department of Treasury data in tax year 2008, 273,312 income taxpayers filed for the higher education credit with the average credit equal to \$90. The community foundations credit was filed for by 35,200 income taxpayers with the average credit equal to \$93. The homeless shelter and food bank credit was filed for by 234,100 taxpayers with the average credit equal to \$81. A total of 405,000 taxpayers had returns that included the filing of one or more of the three credits.

